

FOREST OIL CORPORATION

FOC AUDIT NO. 04-04-NO

OPERATOR – UNOCAL CORPORATION

PROPERTIES

**TRADING BAY UNIT
DOLLY VARDEN PLATFORM
GRAYLING PLATFORM
KING SALMON PLATFORM
STEELHEAD PLATFORM
MONOPOD PLATFORM
TRADING BAY PROCESSING FACILITY**

PERIOD - JANUARY 2002 THROUGH DECEMBER 2002

AUDIT REPORT

DATE – DECEMBER 27, 2004

FOREST OIL CORPORATION

**EXHIBIT E-1
PAGE 1 OF 3**

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For you.

12/11/02

Ex. #6

Schedule II

**FOREST OIL CORPORATION
FOC AUDIT NO. 04-04-NO
OPERATOR – UNOCAL CORPORATION
PROPERTY – TRADING BAY UNIT**

Exception Description	Credit (Charge) Due
<u>Exception No. 06 Operator-Owned Tool Rental Charges</u>	\$ TBD
<p>The Operator charged various Trading Bay Unit Operations \$1,009,682.19 for rental charges on Operator-owned equipment as summarized on the attached Schedule VI. A sample review of these charges found that the Operator was charging daily rental for an item of equipment at the start of drilling operations and generally did not stop the daily rental charge until completion of the drilling operations. The following is a sample of questionable items found on the Monopod well A-15RD (AFE number 151723) for the month of January 2002, applicable to this tool rental procedure:</p> <ol style="list-style-type: none"> 1. A 12-1/4" bit breaker was charged for the entire month of January 2002. The Drilling Report indicates that 9-5/8" casing was run January 8, 2002 and the charges should have stopped. 2. An 8-1/2" bit breaker was charged for the entire month of January 2002. The 9-5/8" casing was run on January 8, 2002 and the 8-1/2" bit would be used until after that date. 3. There were 3-1/2" and 4-1/2" rams charged for the entire month. Per the Drilling Report 4-1/2" casing was not run until March 21, 2002 and 3-1/2" and 4-1/2" tubing was run March 23, 2002. 4. There were 3-1/2" and 4-1/2" subs (box X pin) charged for the entire month. Per the Drilling Report 4-1/2" casing was not run until March 21, 2002 and 3 1/2" and 4-1/2" tubing was run March 23, 2002. 5. Valve, lower kelly, box X pin was charged for the entire month. Per the Drilling Report 4-1/2" casing was not run until March 21, 2002 and 3-1/2" and 4 1/2" tubing was run March 23, 2002. 	

Prudent operations would require the Operator to bill for only the actual operating time the equipment was used and not the full time period the well was being drilled.

The Operator's decision to send and return rental equipment that is expected to be used in an operation all at one time may appear to be efficient tool usage. However, this method of "warehousing" idle rental equipment at an operating site and charging daily rental rates during the non-use time period appears to be for the Operator's benefit of improving utilization time for Company Owned rental equipment.

A schedule of the detail JADE data and copies of all supporting documents were previously provided to the Operator.

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Schedule II

**FOREST OIL CORPORATION
FOC AUDIT NO. 04-04-NO
OPERATOR – UNOCAL CORPORATION
PROPERTY – TRADING BAY UNIT**

**Credit
(Charge)
Due**

Exception Description

Exception No. 06 Operator-Owned Tool Rental Charges –Continued-

The Operator is requested to determine “actual chargeable usage days” applicable to the equipment charges listed on Schedule VI and issue credit to the Trading Bay properties for excess non-use time charges plus overhead, or provide justification of these non-use time charges.

Total Exception Amount	TBD
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Exception No. 07 Duplicate Charge for Gate Valve**\$ 4,974.90**

The Operator charged the King Salmon K-1RD2 (AFE number 149273) \$4,830.00 on Cooper Cameron invoice number 62017253 dated March 04, 2002. The Operator also charged the King Salmon K-1RD2 (also to AFE number 149273) \$4,830.00 on Cooper Cameron invoice number 62017254 also dated March 04, 2002. Both invoices were applicable to a 4-1/16” gate valve.

The vendor indicated on invoice number 62017254 that the valve was for AFE number 153066. The Operator’ material movement form also shows that the valve is chargeable to AFE number 153066. The Operator’s JADE indicates that AFE number 153066 is not applicable to the Trading Bay Unit Operations.

A schedule of the detail JADE data and copies of all supporting documents were previously provided to the Operator.

The Operator is requested to credit the King Salmon K-1RD2 (workover AFE number 149273) for the duplicate gate valve charge of \$4,974.90, or provide additional documentation to support the validity of the accounting entry to a Trading Bay Unit AFE.

Exception Amount		\$4,830.00
Overhead Percentage	.03	\$144.90
Total Exception Amount		\$4,974.90

Exception No. 08 Duplicate Charge – Down Hole Tools**\$ 194,910.63**

The Operator charged \$193,400.96 on Phoenix Petroleum Services Limited invoice number 5076.12.01 dated December 14, 2001 for five (5) MultiSensor Downhole Tool Type “1” (part no. A346129-431) to the following King Salmon Platform ESP Conversion workover wells: